

BUDGET ADOPTION AND ADMINISTRATION

PURPOSE

To establish the policy for the preparation, adoption, and administration of the City's Annual Budget.

POLICY

- A. Revenues and Expenditures. With rare exceptions, the City's policy is to identify and separately budget and account for revenues and expenditures. However, in some cases the Administrative Services Director may determine that certain funding coming in to the City is more properly reflected as abatement to an expense than as revenue; or that certain expenditures of funds are more properly reflected as abatements to revenue than as expenses. The Accounting Division will keep note of all such entries, and maintain the ability to separately identify the component transactions. Examples of transactions where such recording is often appropriate are earnings on compensating balances, which directly offset the City's expenditures for banking services; and credit card processing charges, which decrease actual revenue received.
- B. Organization and Development of the Annual Budget. Each year the City shall prepare and adopt, by formal Resolution, an annual budget as required by the City's Charter and as provided for in the City's Budget Instructions.

The Annual Budget is published in three volumes, the Resource Allocation Plan (RAP), the Budget Detail and the Capital Improvement Program (CIP). The RAP provides an overview of each department's mission, functions, statistical information, and budget. It also provides summary information regarding the Capital Improvement Program, as well as summary information for budgeted and historical overall City revenues, expenditures, and fund balances. The Budget Detail contains line by line information regarding operating expenditures for the prior year, current year and budget year. The CIP document provides a summary of current and future planned projects, basic descriptions of each project, the funding source and the scope of work to be performed.

The City programs expenditures into four classifications. These are Salaries and Benefits, Maintenance and Operations, Other Charges, and Capital Expenditures. Capital Expenditures are subdivided into Capital Outlay, which is generally used for items of operating equipment or other purchases in excess of \$500, and

Capital Projects, which generally deal with Public Works related improvements for a distinct and identifiable purpose and function. Policy guidelines regarding budgeting for upkeep and improvement of City buildings are as follows.

1. Cleaning, maintenance, and minor repair expenses are funded within departmental Maintenance and Operations budgets. This includes janitorial, limited painting, and routine electrical, plumbing, and minor structural repairs.
2. Most capital equipment outlays are also budgeted at the department level. These include expenditures for furniture (free-standing and most built-ins), carpet replacement, and electronic equipment.
3. Building expenditures that are for a more substantial and relatively infrequent purpose are funded as Capital Improvement Projects above the departmental level. These include such items as roof replacements, significant plumbing and/or electrical upgrades, or remodels involving structural changes.

Budgeted Expenditures for all four classifications are aligned in the Budget Documents by Department Budget Units, which usually coincide with Operating Divisions within the City's organizational structure; and, separately, by Capital Projects. Therefore within each Division Budget, there will be sections for Salaries and Benefits, Maintenance and Operations, Other Charges, and Capital Outlay.

During December of each year, the Administrative Services Department shall prepare preliminary fund balance estimates for the current year and preliminary revenue estimates for the next fiscal year. In January of each year, the Administrative Services Department shall prepare a budget calendar and issue budget instructions and expenditure detail to each department for use in preparation of the next year's City budget. Included in these instructions will be budget guidelines and appropriation limits for each department. These guidelines will be developed by the Administrative Services Director and approved by the City Manager. In accordance with City Council Policy F-2 (Reserves/Designations of Fund Balance), the status and possible changes in Reserve Accounts shall be addressed as part of this process.

After submission of revenue and expenditure appropriation requests by each department, the Administrative Services Department shall summarize the requests for review by the City Manager and Department Heads. After review by the City Manager and Department Heads, the Administrative Services Department shall prepare the City's proposed budget for the next fiscal year and shall submit said proposed budget to the City Council. Thereafter, the City Council shall hold as many budget study sessions as it deems necessary. Council budget study sessions shall be recorded. All proposed Council changes to the City Manager's proposed budget shall be itemized on a budget checklist. Subsequent to Council review and prior to its final adoption, the City Manager shall distribute the budget checklist to permit the City Council to approve each checklist item individually or the checklist by motion.

The City Council shall hold a budget hearing and shall adopt a budget on or before June 30 as required by the City Charter.

- C. Administration of the Annual Budget. During the budget year, Department Heads and their designated representatives may authorize only those expenditures that are based on appropriations previously approved by City Council action, and only from accounts under their organizational responsibility. In addition, budget expenditures may only be authorized in the year appropriated. Any unexpended appropriations, except valid encumbrances, expire at fiscal year end unless specifically reappropriated by the City Council for expenditure during the new fiscal year. Department Heads are responsible for not authorizing expenditures above budget appropriations in any given expenditure classification within their purview, without additional appropriation or transfer as specified below.
1. New Appropriations. During the Budget Year, the City Council may appropriate additional funds for special purposes by a City Council Budget Amendment. The City Manager has authority to approve requests for budget increases not to exceed \$10,000 in any Budget Activity or Capital Project. (This must be specifically included in each year's Budget Resolution to remain valid.)
 2. Grants & Donations. The City Manager may accept grants or donations of up to \$30,000 on behalf of the City. However, if a new or additional appropriation is required, the City Manager's authority to create new appropriations is limited to \$10,000 as stated above. The City Council will be formally notified of such actions on a quarterly basis by way of the City

Manager newsletter to the City Council. (This provision must be specifically included in each year's Budget Resolution to remain valid.)

Additionally, grant appropriations approved by City Council may be carried forward to the following fiscal year(s) as long as the grant terms remain valid, the expenditures are consistent with the previous Council authorization, and the funds would otherwise need to be returned to the granting or donor agency. Also, see Council Policy F-25 for specific grant acceptance and administration procedures.

Grant contracts and restricted donations in excess of \$30,000 must be specifically approved by the City Council. Occasionally, the terms and conditions of a grant are approved by City Council in a year prior to when the program activity will take place and therefore, the funds are not appropriated to carry out the grant at that time. In such cases, the City Manager may appropriate the funds when they are received, provided the expenditures clearly meet the amount, terms, nature and intent of the grant or donation previously approved by City Council.

3. Assessment District Appropriation. Assessment district projects are typically funded by property owner contributions and bond financing secured by property assessments. City staff will initially seek appropriation to advance City resources for the assessment engineering and the design work related to a proposed assessment district. Since the City's advance is at risk until a district is formed at a public hearing, the appropriation related to advanced resources shall be subject to the normal budget policies. However, once the district has been formed at a public hearing, the City Council will adopt a "project-length" budget for the district and City staff will be allowed to roll the appropriations forward into future fiscal years without rebudgeting the project through the formal CIP process.

When assessment bonds are issued to finance the improvements, the bond issuance costs are estimated at the maximum amount that would be required to complete the improvements because it is not known how many property owners will opt to pay the assessment in full during the cash collection period. Finance staff will also have the authority to reduce Council appropriations (related to bond issuance costs) after bonds are resized and sold.

4. Transfers. During the fiscal year, actual expenditures may exceed budget appropriations for specific expenditure line items within departmental budgets. If a total departmental budget, within a specific Classification, is not exceeded, the Administrative Services Director has the authority to transfer funds within that Classification and Department, to make the most efficient use of funds appropriated by the City Council. (Salaries and Benefits, Maintenance and Operations, Other Charges, and Capital Expenditures are the City's four Classifications.)
5. Realignments. Further, funds may be realigned between one Department Budget Activity and another, within the same Classification, with City Manager approval. For example, if a Fire Department function and the employee who accomplishes it are replaced by a slightly different function assigned to the Police Department, the City Manager may authorize the transfer of appropriate funds to support this function.
6. Reprogramming. Any reprogramming of funds among the four Classifications (Salaries and Benefits, Maintenance and Operations, Other Charges, and Capital Expenditures) within a given fund requires the City Manager's approval. Any budget revision that changes the total amount budgeted for any fund (other than the minor provisions contained in paragraphs C.1. and C.7.b.) must be approved by the City Council.
7. Capital Projects. The Department Head having primary responsibility for a Capital Project (usually the Public Works Director) is authorized to encumber and approve subsequent expenditure of City funds for Capital Projects. However, contracts in excess of \$30,000 require specific City Council authorization at the time of contract award. In addition, any contracts not of format and wording already approved by the City Attorney require specific City Attorney review and approval prior to contract award.

Once a contract has been awarded, change orders may be approved by the Public Works Director, or other Department Head having responsibility for the Project, so long as the net total amount committed to the Project remains below 110 percent of the original contract award amount; and so long as the original amount appropriated for the Project by City Council is not exceeded.

Change orders exceeding the above thresholds may be approved by the City Manager as follows:

- a. Total spending for any single contract may not exceed 125 percent of the original contract award amount without City Council approval. In certain situations the Public Works Director and the City Manager may determine that a change order exceeding this 125 percent threshold is needed, and that the timing is such that a work stoppage or other undesirable consequence will result if approval of the change is delayed until the next City Council meeting. In those instances, the City Manager may approve a change up to 150 percent of the original amount. However, the City Manager will notify all City Council Members individually if this situation develops, and if there are any objections to the increase, a special meeting of the City Council will be called to address the issue.
- b. The total amount authorized for a capital improvement project may be increased by transferring funds from one Project to another or by reprogramming funds from any of the other three classifications (see C.6), so long as the new total does not exceed 110 percent of the original amount appropriated by Council.
- c. In the event that the transfer or reprogramming action in C.7.a. or C.7.b. above would result in a material reduction in the scope of the capital project or other City activity from which funds are to be withdrawn, City Council authorization is required. For example, the movement of five percent (5%) of the funding from one large project to another large project of the same general category could be approved by the City Manager, whereas the elimination or significant reduction of two small, unrelated projects to provide funds for a five percent (5%) increase in a much larger project would require City Council approval.

In all instances, notification of any changes to capital project contract amount or budget authority must be communicated to the Administrative Services Director.

All unexpended and unencumbered capital projects will be canceled on June 30 of each fiscal year. The appropriation balance of these canceled

projects will be recorded in the Reserve for Capital Improvements or another appropriate Reserve Account by the Administrative Services Director at fiscal year end (see also paragraph D.2. below).

8. Reserves. Funds from unappropriated contingency reserves may be transferred to active Classification accounts only by City Council Budget Amendment.

D. Additional City Council, City Manager, and Administrative Services Director Responsibilities. The Administrative Services Director is responsible for checking purchase requests against availability of funds and authorization as per the approved Budget. The City Manager is responsible for approving expenditures which do not conform to the approved Budget, but which fall within the exceptions noted in this policy statement. It is the responsibility of the City Manager to administer the City's budget within the framework of policy and appropriation as approved by the City Council.

1. Special City Council Expenditure Approval. Once the final Budget has been approved by the City Council, specific City Council approval to make expenditures consistent with the Budget will not be required, with two exceptions (see also Purchasing and Accounts Payable Procedures):
 - a. Capital Projects in excess of \$30,000.
 - b. Contracts for services in excess of \$50,000.

All other budget administration actions, including the routine filling of vacancies in staff positions authorized within the Budget, will not require further City Council approval. However, new positions and other new expenditures do require City Council approval, and the City Council and City Manager reserve the right to impose any special fiscal control measures, including a personnel hiring freeze, and other spending controls, whenever circumstances warrant. Since the annual Budget is approved by formal Resolution, a request by a City Council Member for review of a portion or portions of the Budget, with a view toward changing amounts appropriated or the purposes for which they were appropriated, requires a majority vote of the City Council.

2. At fiscal year end, the Administrative Services Director is authorized to realign, reprogram, and/or transfer money among accounts within each Fund in order to close the books of accounts of the City of Newport Beach in accordance with generally accepted governmental accounting principles as established by the Government Accounting Standards Board, Government Finance Officers Association, and other appropriate accounting or auditing pronouncements. Any net shortage within a Fund will be recorded as a decrease in Fund Balance and reported to the City Council. Any net excess will be recorded as an increase to one or more appropriate Reserve Accounts as recommended by the Administrative Services Director and approved by the City Manager. (Information regarding appropriation of Funds from the Reserve Accounts is contained in City Council Policy F-2.)

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Formerly F-10, F-11, F-12, and F-21